

Impact of the Goods and Services Tax (GST) Bill on the Indian Economy

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Abstract—The passing of the Goods and Services Tax (GST) bill has generated much momentum in India. The unification of the indirect taxation system under a single tax regime is a monumental move in the history of Indian economy. With regards to the same, this paper seeks to discuss the different manners by which the GST bill may impact the various parties in the market such as customers, businesses, and the governments.

Index Terms—GST, Goods and Services Tax, Indian, Economy, CGST, SGST

I. INTRODUCTION

The Goods and Services Tax Bill (abbreviated as 'GST' bill) was passed by the Finance Minister of India, Shri Arun Jaitley on July 1, 2017. It is a comprehensive, multi-stage tax that is to be levied on products and services in India. Hence, the GST is expected to successfully replace the previous forms of indirect taxation such as VAT (value added tax) and central excise (or service tax).

II. FEATURES OF THE GST

The primary reason for the implementation of the GST tax regime is its simplicity for both buyers as well as sellers. Since GST will be a unified indirect tax for the whole of India, it will help in the creation of a uniform tax system. Prior to the introduction of the GST by the Indian government, VAT (value added tax) and central excise/service tax were charged which have now been replaced with one tax rate (Garg, 2014). The features of the GST are –

- i. GST is based on the principle of the destination of products and services, rather than the principle of origin.
- ii. GST would be applicable on every step of value addition in the manufacturing process right from the purchase of raw materials until the final sale to the customer.
- iii. GST is based on a uniform base with 2 segments including the Central GST (known as the CGST) and the State GST (SGST). The CGST is levied by the central government while the SGST is levied by the state government. The rate of tax is evenly divided between the central and state governments.

- iv. GST requires a paper trail i.e. the presentation of documented evidence for every transaction performed. It also needs the PAN (Permanent Account Number) and Aadhar Card numbers of the assesseees.

III. HISTORY OF THE GST TAX REGIME

The Goods and Services Tax law is not unique to the Indian economy. It was adopted by France in the year 1954 to reduce the high sales tax rates which encouraged illegal activities such as cheating and smuggling by the country's residents. Since then, about 150 countries have adopted GST tax reforms in different forms. In some other countries, the value added tax (VAT) is levied on products and services as an alternative to GST. However, in the Indian economy, the impact of GST is such that it replaces many taxes previously levied by both the Center and the State. Brazil and Canada are the 2 other countries that levy taxes on a dual basis such as the Indian system.

At the Center, the GST replaces –

- i. Central Excise Duty
- ii. Excise Duty (as per Medical and Toiletries Preparations Act 1955)
- iii. Additional Excise Duties (as per Goods of Special Importance Act 1957)
- iv. Additional Excise Duties (as per Textiles and Textiles Products Act 1954)
- v. Countervailing Duty (known as CVD)
- vi. Special Additional Duty of Customs (known as SAD)
- vii. Service Tax
- viii. Cess and surcharges levied on supply of goods and services by the Center

At the State, the GST replaces –

- a. State Value Added Tax (State VAT)
- b. Central Sales Tax (CST)
- c. Purchase Tax
- d. Luxury Tax
- e. Entry Tax
- f. Entertainment Tax
- g. Advertisements Tax
- h. Taxes levied on lotteries, betting, and gambling
- i. Cess and surcharges levied on supply of goods and services by the State

IV. BENEFITS OF THE GST TAX REGIME

The implementation of GST will be beneficial to customers, businesses, as well as the government (at the Center and

State). For customers, GST will confer the following benefits

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- i. Customers will pay less on the purchase price of goods and services due to the appropriate distribution of input tax credit between the manufacturer, retailer, and the supplier. The end-user of products/services will only bear the amount of tax charged by the last dealer and all the previous stages' benefits would be set-off.
- ii. GST is simpler than previous forms of indirect taxation. Hence, customers would no longer be vulnerable to unaffordable prices due to hidden taxes. Therefore, transparency will be ensured thus protecting customers from being charged more than allowed.
- iii. GST will reduce the overall tax burden on companies, which will result in the reduction of prices of commodities, and hence benefit customers.

GST will also be beneficial to companies and businesses in the following ways –

- i. Businesses will benefit from having an easier and unified taxation regime. It would make compliance for them easier; different taxpayer services such as registration, returns, and payments, would be available online therefore making compliance simple and transparent.
- ii. GST will reduce the possibility of hidden taxes at diverse levels of the supply chain and therefore make the payments simpler and cheaper.
- iii. Businesses will save money on accounting and compliance fees, for they will not be required to account and maintain records for various kinds of taxes at the central and state levels.
- iv. Simplified taxation system will make returns filing easier for the business owners thus encouraging them to file their tax returns.
- v. Tax returns filing and other associated procedures such as registration, payment, etc. will be done online via the Goods and Services Tax Network (GSTN) portal. Therefore, this is more convenient as opposed to manually performing the process.

Finally, GST will be beneficial for the central and state governments because –

- i. One unified indirect tax regime will encourage foreign investors to invest in India due to simplicity and enhanced transparency throughout the process. This will lead to generation of FDIs or foreign direct investments in India.
- ii. Both Central as well as State governments can easily administer the collection of CGST and SGST due to a simpler structure of indirect taxation. Through the implementation of robust IT infrastructure, the process can be further smoothened to reduce the challenges in the collection of tax.
- iii. Having one defined tax system reduces the ambiguity associated with the quantum of tax levies and thus contributes to certainty of tax collection.
- iv. The GST will require fewer administrative procedures due to which the expenses associated with tax administration will be reduced. Therefore, the revenue efficiency will increase.

V. EFFECT OF THE GST ON UNACCOUNTED INCOME

The implementation of GST will discourage businesses and companies from indulging in illegal practices to evade taxes. It will do so through the following ways –

- i. The implementation of GST will result in a much simpler and easy to understand taxation system. Sellers can no longer overcharge customers by manipulating the bills.
- ii. The filing for GST will be done online; by integrating technology, the scope of manipulation of tax records has been reduced significantly.
- iii. GST will incorporate dual – monitoring of tax filings and returns. Should one of the 2 governmental tax authorities fail to detect evasion, the other authority may not.
- iv. Tax reporting has been simplified and hence the chance of the companies and businesses understating their incomes to avoid paying the necessary taxes will be reduced. Previously, tax authorities would find it difficult to accurately estimate the amount of tax each assessee should pay which would increase the chances of unaccounted income being created. However, the simplification in reporting would prohibit such incidents.
- v. GST will function through the generation of bills and receipts at every point. In the absence of a uniform tax regime, it is possible to remove or edit certain entries in the accounting books and thus manipulate records to avoid paying tax. With GST, such possibilities are eliminated due to the introduction of a paper trail, which is the requirement of documented evidence for transactions at every point of the supply chain.
- vi. The GST brings the real estate and gold markets under its ambit and hence lessens the possibility of black money hoarders using these means to hide their unaccounted income.

VI. CONCLUSION

The GST bill is a revolutionary move by the Indian government. While India is not the first to implement a unified indirect taxation regime, it is certainly unique in that it has managed to replace so many central and state level taxes with a single tax system. The implementation of the GST will benefit customers and the common man by improving the transparency in the pricing of goods and services, businesses will benefit from lower costs of compliance, while governments will have a more efficient taxation system with certainty in the levy and collection of taxes at both central and state levels. Being fully online, this new improvisation in the Indian taxation will ensure that taxes are collected appropriately. Therefore, the Indian government will be more efficient to oversee the development of the Indian economy.

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